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Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AGRE-00 AID-05 EB-08 IO-13 USIA-06
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NSAE-00 DODE-00 /053 W
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R 160445Z AUG 77
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 7920
INFO AMEMBASSY NEW DELHI
AMEMBASSY ROME

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DEPT PASS USDA FOR PL 480 TITLE I COORDINATOR NORTON;
NEW DELHI FOR AGATT; ROME FOR FODAG

E.O. 11652: N/A
TAGS: EAID, EAGR, ECON, PINT, CE

SUBJ: GOVERNMENT CUTS FLOUR PRICES AND LIBERALIZES IMPORTS
OF CONSUMER GOODS

REF: COLOMBO 2696

1. BEGIN LIMITED OFFICIAL USE. SUMMARY: ON AUGUST 12, THE
NEW UNP GOVERNMENT DECIDED TO REDUCE FLOUR AND BREAD PRICES
BY 25 AND 20 PERCENT, RESPECTIVELY, TO INCREASE THE SUGAR
RATION BY HALF A POUND, AND TO PROVIDE ADDITIONAL FOREIGN
EXCHANGE FOR THE IMPORTATIONOF A VARIETY OF CONSUMER GOODS.
TO FULFILL THE CAMPAIGN PROMISE THAT EIGHT POUNDS OF CEREAL
WOULD BE MADE AVAILABLE EVERY WEEK, THE GOVERNMENT ALSO ANNOUNCED
THAT IN ADDITION TO THE REGULAR WEEKLY RICE RATION OF FOUR
POUNDS, EVERY CONSUMER WOULD NOW BE ENTITLED TO PURCHASE A
MINIMUM OF FOUR POUNDS OF FLOUR. THE EMBASSY IS CONCERNED
THAT THE LARGE PRICE DIFFERENTIAL BETWEEN FLOUR AND RICE WILL
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REDUCE FURTHER THE DEMAND FOR RATION RICE WHICH WILL AGGRAVATE
THE PROBLEMS OF THE PADDY MARKETING BOARD AND DEPRESS FARM
PRICES AS REPORTED REFTEL. END LIMITED OFFICIAL USE. END
SUMMARY.

2. BEGIN UNCLASSIFIED. IN A SPECIAL CABINET MEETING ON AUGUST
12, THE NEW UNP GOVERNMENT OOK THE FIRST CONCRETE STEPS TO FUL-

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FILL ITS CAMPAIGN PLEDGE TO LOWER THE COST OF LIVING. A CAB-
INET COMMUNIQUE ANNOUNCED THE IMMEDIATE REDUCTION OF THE PRICE
OF WHEAT FLOUR FROM RS. 0.80 TO RS. 0.60 PER POUND AND THE
PRICE OF BREAD FROM RS. 0.75 TO RS. 0.60 PER POUND. THE COM-
MUNIQUE STATED THAT THE POSSIBILITY OF A FURTHER CUT IN BREAD
PRICES IS BEING EXAMINED. THE SUGAR RATION (WHICH IS SOLD AT
THE SUBSIDIZED PRICE OF RS. 0.72 PER POUND RATHER THAN THE FIXED
OFF-RATION PRICE OF RS. 5.00 PER POUND) WILL BE INCREASED FROM
ONE TO 1.5 POUNDS EFFECTIVE SEPTEMBER 1.

3. IN ORDER TO MEET ITS PROMISE OF EIGHT POUNDS OF CEREAL
PER WEEK (REFTEL), THE CABINET ALSO ANNOUNCED THAT IN ADDITIONAL
TO THE NORMAL WEEKLY FOUR POUND RICE RATION, EVERY CONSUMER
WILL NOW HAVE THE OPPORTUNITY TO PURCHASE A MINIMUM OF FOUR
POUNDS OF FLOUR THROUGH CO-OPERATIVE STORES OR OTHER
AUTHORIZED DISTRIBUTORS.

4. IN AN EFFORT TO USE IMPORTS TO LOWER DOMESTIC PRICES BY
ELIMINATING SHORTAGES, THE CABINET AUTHORIZED THE RELEASE OF
ADDITIONAL FOREIGN EXCHANGE AS FOLLOWS: RS. 66 MILLION FOR
MILK FOODS, RS. 24 MILLION FOR DRIED FISH, RS. 25 MILLION FOR
SUGAR, RS. 60 MILLION FOR TEXTILES, AND RS. 113.5 MILLION FOR
RISHING GEAR,MOTOR SPARES, AND OTHER ESSENTIAL CONSUMER GOODS.

5. ACCORDING TO THE COMMUNIQUE, THE TOTAL FOREIGN EXCHANGE
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COST OF THESE RELIEF MEASURES WILL BE MORE THAN RS. 700 MILLION.

6. THE COMMUNIQUE ALSO PROMISED THAT IMPORT ORDERS WILL BE
PLACES EXPEDITIOUSLY AND INTERNAL DISTRIBUTION CHANNELS WILL
BE "CLEANSED" SO THAT THE PUBLIC CAN RECEIVE THE "FULLEST
BENEFITS FROM THE EXTRA IMPORTS." THE COMMUNIQUE WENT ON TO
SAY THAT "SMALL SCALE PRIVATE IMPORTERS WILL BE PERMITTED
(FOREIGN) EXCHANGE TO IMPORT THESE ITEMS IN COMPETITION WITH
THE STATE SO THAT THE MAXIMUM BENEFIT IN PRICE REDUCTION AND
QUALITY WILL BE AVAILABLE TO THE CONSUMER." AUTHORIZED PRIVATE
DEALERS WILL ALSO BE ALLOWED TO ENGAGE IN RETAIL SALES OF
RATIONED GOODS IN COMPETITION WITH THE CO-OPERATIVE STORES.
THE COMMUNIQUE FURTHER STATED THAT THE APPOINTMENT OF NEW BOARDS
OF DIRECTORS AND IMPLEMENTATION OF TIGHTER MANAGEMENT CONTROLS
WOULD HALT STOCK LEAKAGES TO THE BLACK MARKET.

7. TO INCREASE THE ALREADY OVERLOADED STORAGE CAPACITY OF
THE PADDY MARKETING BOARD (PMB) (REFTEL), THE CABINET AUTHORIZED
A SUPPLEMENTARY APPROPRIATION OF RS. 1.67 MILLION FOR INCREASED
STORAGE FACILITIES. MOREOVER, IT WAS DECIDED THAT THE PMB
WOULD PURCHASE MILLED RICE IN ADDITION TO PADDY. UNSPECIFIED
ACTION WAS PROMISED TO INCREASE THE COUNTRY'S TOTAL MILLING

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CAPACITY. END UNCLASSIFIED.

8. BEGIN LIMITED OFFICIAL USE. DEPUTY FOOD COMMISSIONER PULENDIRAN TOLD EMBOFF THAT THE CUT IN FLOUR AND BREAD PRICES IS EXPECTED TO BOOST MONTHLY FLOUR CONSUMPTION FROM THE PRESENT 42,000 TO 43,000 TONS TO ABOUT 55,000 TONS. HE ESTIMATED THAT ADDITIONAL FLOUR IMPORTS OF 60,000 TO 70,000 TONS WOULD BE REQUIRED BY NOVEMBER TO MEET THIS ANTICIPATED LEVEL OF DEMAND THROUGH THE END OF THIS YEAR. IF THE DEMAND FOR FLOUR EXCEEDS 55,000 TONS PER MONTH, WHICH PULENDIRAN DOUBTED VERY MUCH, A CORRESPONDING INCREASE IN IMPORTS WOULD BE NEEDED. WHEN ASKED IF THE REDUCTION INFLOUR PRICES MIGHT SHIFT DEMAND AWAY FROM RATION RICE, PULENDIRAN ADMITTED THAT WAS A POSSIBILITY BUT SAID THAT NO ESTIMATE HAD BEEN MADE OF HOW MUCH THE CONLIMITED OFFICIAL USE

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SUMPTION OF RATION RICE MIGHT DECLINE. ON THE DEMAND FOR SGAR, PULENDIRAN THOUGHT CONSUMPTION ON THE RATION WOULD INCREASE FROM 6,000 TONS PERMONTH TO ABOUT 9,000 TONS.

9. COMMENT. THE ADDITION OF FOUR POUNDS OF FLOUR PER WEEK TO THE REGULAR RICE RATION WAS A PAINLESS WAY FOR THE GOVERNMENT TO MEET ITS CAMPAIGN PROMISE OF EIGHT POUNDS OF CEREAL. SINCE FLOUR WAS TAKEN OFF THE RATION IN MARCH 1975, THERE HAS BEEN NO LIMIT ON HOW MUCH A PERSON COULD BUY, AND PER CAPITA CONSUMPTION HAS AVERAGED LESS THAN TWO POUNDS PER WEEK. EVEN IF CONSUMPTION INCREASES TO 55,000 TONS PER MONTH, THIS IS STILL EQUIVALENT TOONLY 2.2 POUNDS PER PERSON PER WEEK. AT THE CURRENT C AND F PRICE FOR IMPORTED FLOUR AND THE PRESENT OFFICIAL EXCHANGE RATE, (REFTEL), THE NEW FLOUR PRICE OF RS. 0.60 REPRESENTS A GOVERNMENT SUBSIDY OF RS. 0.05 PER POUND. ASSUMING DISTRIBUTION OF 55,000 TONS PER MONTH, THE MONTHLY SUBSIDE WOULD BE RS. 6.1 MILLION, OR RS. 73.2 MILLION PER YEAR. THIS IS WELL BELOW THE RS. 236.5 MILLION BUDGETED FOR FLOUR SUBSIDIES IN 1977. THE 25 PERCENT REDUCTION IN FLOUR PRICES IS VERY LIKELY TO REDUCE THE DEMAND FOR RICE DISTRIBUTED ON RATION AND, PERHAPS, FOR OPEN MARKET RICE. THIS COULD RESULT IN A FURTHER REDUCTION IN THE AMOUNT OF RICE THE FOOD COMMISSIONER BUYS FROM THE PMB. WITH THE PMB ALREADY TURNING FARMERS AWAY BECAUSE IT HAS NO MORE STORAGE SPACE, THE EFFECTIVE PRICE RECEIVED BY THE PADDY FARMER COULD BE ADVERSELY AFFECTED (SEE REFTEL). ACCORDING TO PRESS REPORTS, THE LIMITED STORAGE CAPACITY IN PRIVATE HANDS IS ALSO FILLED AND NOBODY KNOWS WHAT TO DO WITH THE YALA HARVEST. THE EMBASSY WILL REPORT FURTHER ON THIS PROBLEM.
WRIGGINS

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Disposition Approved on Date:
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